A Showcase of Smallholder Agriculture in the EAC: The Case of the Smallholder Tea Sector in Kenya

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**Sub-theme 9: Lessons from East Africa.** The commissioned paper will present the case of the smallholder tea development in Kenya to illustrate the successes recorded from colonial period when natives were not allowed to grow tea to currently when smallholders are competitive in terms of quality and quantity in the world markets. The paper will also aim to bring out the different models that have been used in the sector to drive such a success within many stagnant (and some failing) sectors. The paper will bring out the lessons other sectors in the region can borrow from the tea sector as well as highlighting how challenges have been dealt with.

**Abstract**

The paper lays out the case for the small holder tea sector in Kenya from the colonial period in 1903 to date. The study focus on the models the sector has tried over the years, the challenges across the tea value supply chain, the successes, the learning’s, the impact and the way forward for the sector.

The impact of KTDA on the livelihoods of the over 560,000 tea farmers in Kenya who deliver green leaf to the 65 tea factories managed by the agency. Across the value supply chain, more than 10,000 people are directly employed in the small holder sector, indirectly benefitting over four million people.

On the supply side of the business, KTDA benefits hundreds of transporters, and scores of small and large scale business partners who supply plant and machinery, vehicle spare parts, fuel and other operational and maintenance services.

The sector, however, has also faced myriad challenges, among them dwindling farm sizes over the years arising from an in increasing population, uncertainties occasioned by the fluctuations in global tea prices, rising production costs, unfavourable weather, rising labour costs and the escalating costs of electricity and fuel.

To mitigate against these challenges, KTDA has intensified efforts to invest through the value chain as part of its business diversification strategy, value addition, new products innovations and sourcing for new tea markets while strengthening the existing ones.

The model adopted by KTDA has succeeded beyond expectations. Dubbed as the most unique model in the world, it has become a case study on how to successfully manage commercial cash
crops from cultivation, extension services, production, procurement of farming inputs like fertilizer, transport logistics, warehousing and marketing.

The study recommends the adoption and replication of the unique organizational structure of the KTDA model in Kenya by other players in the agricultural sector like coffee, pyrethrum, and sugarcane. Already, KTDA has been approached by a private company in Rwanda to manage some of its tea factories in the country, owing to its success in managing the small scale tea sector in Kenya.

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Introduction of Tea in Kenya (1903)

The history of tea in Kenya is closely linked to the early traders who brought the first tea seedlings (Camellia sinensis) from India and planted them in Limuru, Kiambu County, not far from Nairobi. What are acknowledged as the first tea bushes, planted in 1903 by G.W.L. Canine, are now huge trees that still stand within the grounds of what is now Unilever’s Mabroukie Tea Estate in Limuru, a living historical testimony to the humble beginnings of Kenya’s tea industry, which is today a key pillar of the country’s economy.
Following the example of Limuru farmers, small private tea farms were established in Kericho, where the similarly high altitude, soils, and rain patterns, provided perfect climatic conditions for the growth of the crop.

Commercial cultivation of tea in Kenya began in 1924. Reports indicate that planting was cut back in 1933 because of a depressed market, but this situation was reversed in later years. Indeed, Unilever’s Mabroukie Tea Estate in Limuru, where the first seedlings were planted, became one of the first commercial tea processing factories.

To govern and provide for the control of tea production, the first legal instrument was enacted as the Tea Ordinance, 1934 (No. 46 of 1934) and revised in 1948 (No. 52 of 1948) which became effective on 25th August 1948. The ordinance created the institution of the Directorate of Agriculture, which was responsible for controlling the production of tea by issuing licences and permits to growers.

The Independence Struggle (1950 – 1960)

Agitation for African rights over land ownership and control of agriculture

The development of tea farming in Kenya is closely linked to the country’s political history. With the struggle for independence gaining momentum in the early 1950s, underpinned by demands for land rights, Africans began pushing for the right to grow tea as well.

The importance of the crop had been realised by the colonial government, which sought to further regulate the young tea sector by setting up the Tea Board of Kenya in 1950 under the Tea Act (CAP. 343, Laws of Kenya).

The first milestone in the efforts by African farmers to be allowed to grow the crop came in 1954 when the colonial government formulated the Swynnerton Plan, formalizing smallholder tea cultivation.

By 1956, towards the sunset of the colonial reign in Kenya, a growing number of African farmers were planting tea in the highlands areas of the Rift Valley, around Kericho, and in central Kenya, from Limuru to the Mt Kenya and Aberdare ranges. Although they lacked farm husbandry skills to manage the new crop, the pioneer smallholder African farmers had planted significant acreage of tea to justify the setting up of the first smallholder tea factory, the Ragati Tea Factory, built in Nyeri, central Kenya, in 1957.

By this time, the potential of Kenya to become a key exporter of black tea was apparent to the Colonial Government, as it had been established that the country’s highlands, in both the west and east of the Rift Valley, were ideally suited for tea farming. The Colonial Government therefore moved to protect and encourage further development of the crop by establishing the Special Crops Development Authority (SCDA) in 1960 under the Ministry of Agriculture to promote the cultivation of tea, and other cash crops, and to oversee the tea sector.

Independence (The Early Years – 1960s, 1970s, 1980s): Nurturing & Training
Kenya’s independence in 1963 heralded a period of great hope for smallholder farmers as the first African government led by President Jomo Kenyatta championed the development of the sector. Indeed, Kenyatta, who was passionate about tea, took a personal interest in the sector’s growth and put in place legal and policy instruments to not only promote the smallholder tea sector, but also to cushion it against internal and external threats.

Apart from Jomo Kenyatta, those considered the founding fathers of the smallholder tea sector in Kenya include A. A. Lawrie, Jackson C. Kamau, and Douglas Penwell. Others are Charles Karanja, George M. Kimani, Eric M. Kimani, and Stephen M’Imanyara.

The first significant measure the Kenyatta Government took, in 1964, a year into power, was to replace the Special Crops Development Authority with the Kenya Tea Development Authority (KTDA), a parastatal established under the Agriculture Act, whose mandate would be to encourage and support smallholder tea farming. Whereas the SCDA took care of other “special” crops, such as coffee, KTDA would now focus exclusively on tea, and specifically on smallholder tea farming.

Under the 1964 Kenyan Tea Development Order that gave birth to the Kenya Tea Development Authority, smallholder tea growers across the country now had an autonomous government institution that would assist them in developing their farm husbandry skills, educate them in the best tea farming practices, co-ordinate the plucking and collection of the tea, establish processing factories, and take full charge of the marketing and export of the manufactured tea.

### The Tea Industry Structure

| MINISTRY OF AGRICULTURE | POLICY |
| THE TEA BOARD OF KENYA | REGULATORY |
| TEA RESEARCH FOUNDATION OF KENYA | RESEARCH |
| Smallholder sub-sector (KTDA & NTZDC) | PRODUCERS |
| Plantation Sub-sector (KTGA & Independent Tea Growers) | TRADERS |
| EATTA (Brokers, warehousemen, Buyers, Packers) | |

Source: Tea Board of Kenya

By 1964, there were about 20,000 smallholder farmers officially recorded as suppliers of green leaf, cultivating a total of about 4,000 hectares of tea, with a production of less than 10,000 kgs of made tea.
In what is today acknowledged as a stroke of genius, KTDA adopted a unique quality standard: “Two Leaves and a Bud”, which revolutionized tea production standards in the world. This quality standard, otherwise known as fine plucking, requires farmers to hand pluck, strictly, only the top (freshly grown) two leaves, and a bud (the succulent youngest leaf) from the tea bush. By avoiding the older leaf, which is more fibrous, KTDA factories were able to manufacture tea of a quality that was unmatched anywhere in the world.

The standard practice across the world, and one that is used in tea plantations owned by multinational companies and independent producers located mainly in Kericho and Limuru, is to pluck a lot more leaf – five to 10 leaves, basically a handful, at a go.

Through investment in elaborate tea extension services, adherence to strict tea husbandry standards and a closely monitored fertilizer application programme, KTDA managed to produce a niche product from an age-old crop. What has today come to be known as “KTDA Tea”, though barely 50 years old, is today sought after as a “must have ingredient” to achieve various black tea blends by tea manufacturers around the world.

KTDA also leveraged on the geographical spread of the smallholder tea farmers – straddling the highlands of Kericho and Nandi, Nyamira, Kisii and Vihiga to the west, and those in the east across the Aberdare and Mt Kenya highlands – from Kiambu, Murang’a and Nyeri, to Kirinyaga, Embu and Meru – to produce teas that have all the different attributes sought by global buyers to suit varied consumer tastes.

**Expansion of smallholder tea farming**

By 1989 the number of smallholder farmers had increased dramatically from about 20,000 in 1964 to over 214,000 by 1989. The pressure to expand manufacturing capacity was being felt across the country, forcing KTDA to focus on building new factories and acquiring old ones owned by multinational companies. The volume of tea produced by the smallholder farmers was increasing rapidly, challenging the dominance of the plantations sector as the major producer of Kenyan tea. It was a quiet David versus Goliath contest that David seemed destined to win.

**Area Under Tea 1964 – 2011 and Projections 2012- 2014**
Hectare under tea has grown from 3,480 in 1964 to 109,012 in 2010.

Factory Construction Trend

The face of the Kenyan tea sector was changing, too. What was previously a preserve of colonial farmers and large global companies was becoming a truly local business, from the tea farms, doting the hills across the country, to the factories, located conveniently within the villages. The factory management staff and field extension officers were now men and women trained at local Institutions and at KTDA, replacing colonial agricultural officers and other senior managerial cadres at the head office in Nairobi.

Smallholder Coup in the Global Tea Trade: How Mombasa Beat London
During this 25-year development period, all of Kenya’s tea was exported to the United Kingdom, a major market for global tea, which was home to the world’s most important tea selling centre, the London Tea Auction. As one of the world’s key commercial capital, London seemed the obvious place to have a tea trade centre. In any case, the key global tea trading and tea packing companies had their headquarters in London. But as the volume of Kenyan tea shipped through Mombasa increased rapidly, and production from other countries also grew, tea traders began questioning the wisdom of ferrying the teas to London for auction. Why not simply auction it in Mombasa and then ship it to various buyers’ destinations, including to London? It would certainly eliminate the cost of transportation to London, which was being borne by the producer, and also make the trade more efficient!

The proponents of the shift from London to Nairobi soon realised that it required more than a commercial decision to make the shift happen. How could London cede its influence in the global tea industry to Mombasa? It required a political decision to make it happen. Indeed, it was only after the smallholder producers under KTDA, and a number of global tea-buying companies and tea brokers took the bold decision to start a parallel auction in Mombasa that the shift from London started, though slowly.

The retired chairman of KTDA, Mr Stephen Mutai M’Imanyara, recalling the drive to set up the Mombasa auction, said the smallholder farmers and international buyers concluded that it did not make sense to send the teas to London for the auction because it was an expensive exercise. “So KTDA together with the buyers, colluded to derail the London Auction and build the Mombasa Auction. Our desire to leave the London Auction was driven by the fact that it was very expensive to pay the brokers, pay for the warehousing as well as pay for the shipping of the tea to Britain,” Mr M’Imanyara recalls.

Apparently wary of the political ramifications of such a move, considering that Britain was Kenya’s key trading partner, Kenya’s Ministry of Agriculture opposed the move. The ministry’s protests however did not deter KTDA and the buyers from pushing for what was clearly a cheaper alternative to London. “With time, a few buyers stopped shipping the teas to London and opted to have them auctioned in Mombasa. The Mombasa Auction quickly grew and within a short time it had to be expanded,” the former long-serving chairman recalled. Both centres ran parallel for some time and the London Auction eventually closed down, marking the end of an era in the global tea trade.

The Mombasa Tea Auction Centre became the trading hub of all teas produced in the eastern Africa region – Kenya, Uganda, Tanzania, Rwanda, and Malawi – and one of three top global tea auction centres, together with Mumbai in India and Colombo in Sri Lanka. The Mombasa Auction is run by the East Africa Tea Trade Association (EATTA), which draws its membership from all tea producers (smallholder, multinational plantations and independent growers), buyers, brokers and packers from across the region.

The 1990s: Coming of Age – Smallholders under KTDA Conquer the World
... as Clamour for Liberalization of Industry Shakes its Foundations
The success of the smallholder tea sector is best illustrated by the impact that it has had on the overall tea production and earnings in Kenya. During the 2011/2012 financial year, Kenya’s smallholder farmers accounted for about 60% of that production, producing 1.1 billion kgs of green leaf and 258 million kgs of made tea. The overall earnings in 2013 of the smallholder farmers under KTDA topped Ksh69 billion, up from 61 billion the previous year, with an average return to the farmer of 75%.

**Green Leaf Production 1965-2012**

![Green Leaf Production Graph](image)

Tea maintained its position as Kenya’s highest foreign exchange earner, bringing the country Ksh112 billion in foreign exchange in the 2011/12 financial year, ahead of tourism and horticulture.

Despite the huge volume produced, quality standards are maintained and the smallholder farmers under KTDA receive global recognition for producing the world’s best quality teas. In addition to accolades and trophies, the best illustration of this recognition is the selling price attained at the Mombasa auction. KTDA teas consistently fetch about 12US cents more per kg than all other teas from Kenya and other eastern Africa region due to their superior quality. This consistency in price is witnessed across all teas produced by smallholder tea factories under KTDA, which are apparently sold under their own Factory/Garden name at the auction.

**Kenya’s Key Tea Markets**
During this period, the tea sector faced the challenges of low global prices and rising costs of production, which impacted on annual earnings to farmers. However, considering the crisis in other agricultural sectors at the time, this was bearable, at least tea farmers were guaranteed of their monthly income and annual earning from the export of tea.

The coffee, sugarcane, pyrethrum, dairy and livestock sectors were in turmoil as a result of low production, low prices, mismanagement of parastatals in charge of these crops, political interference and general disorder. Coffee farmers were particularly hard hit as the industry, which was a top foreign exchange earner, collapsed, forcing thousands of farmers who had not received any cash for months for their deliveries opted to abandon the crop.

Smallholder Tea Revenue: 2001 - 2012
A total of Ksh 411 Billion was generated over a 12 year period from tea sales.

The Fight for Control of the Green Gold: Government vs Tea Farmer
*The Road to Privatization: The Big Debate, a Difficult Pregnancy*

The political tension and violence that rocked the country during the clamour for multiparty democracy in the 1990s had a huge negative impact on the economy, and especially the agricultural sector. While other cash crops sectors had succumbed to political interference, opposition Members of Parliament from the Mt Kenya Region where tea and coffee were the key cash crops launched a major offensive to privatise the sectors through a campaign for liberalisation of the industries.

The objective was to stop what they saw as an attempt by the government under President Daniel arap Moi to take control of the region’s major agricultural resources in order to stifle opposition to his rule. The MPs, led by the then leader of the official opposition, Mwai Kibaki, formed the Coffee and Tea Parliamentary Association (COTEPA), a highly vocal group that became the rallying point for the push to liberalise the tea sector and privatise the Kenya Tea Development Authority.

The ensuing privatisation debate and political infighting rocked the smallholder tea sector as radical changes were proposed to the governance, regulatory and administrative structures of KTDA, creating opportunities for farmer representation from the grassroots at the factories to the national head office, and replacing the government’s stake and authority with a farmer-owned structure.

Since smallholder tea farmers were not organised under co-operatives, and neither did they belong to trade unions (since they are employers themselves), a number of farmer activist groups emerged, purportedly to champion farmers’ rights.

It took some 10 difficult years to privatize KTDA. In 1991, the Parastatal Reform Strategy Paper listed KTDA among a number of other strategic parastatals to be privatized, but it was not until 1999 that the KTDA Order was revoked through Legal Notice No.44, to pave the way for its privatization.
Finally Privatised! The New Face of Smallholder Tea Farming – from Authority to Agency, Year 2000 and Beyond

On 30th June 2000 the Kenya Tea Development Authority (the parastatal) was transformed into a private company, the Kenya Tea Development Agency Limited and registered under the Companies Act. There were 45 smallholder factories at the time of privatization in 2000 and the number has today risen to 65.

The objective of privatizing KTDA and liberalizing the tea industry was to promote efficiency and competitiveness as well as to attract private sector investment and grower participation in tea factory ownership and management. Apart from KTDA, other institutions in the industry were to be restructured.

As the *Tea Industry Task Force Report, 2007*, notes, “other changes which took place during the liberalization included repeal of the tea growing license and the removal of tea planting cess. The government also removed subvention in respect of tea extension staff seconded to the smallholder tea factories. The ownership of the smallholder factories was transferred to the small-scale growers under the management of their own managing agent, KTDA. In addition, it was expected that other management agents would emerge to compete with KTDA in the management of the tea factories.”

**Unique ownership and business model**

*The Triumph of Numbers!*

At its privatisation, the Kenya Tea Development Agency Limited had about 400,000 smallholder farmers, who became shareholders of KTDA, through their respective Tea Factory Companies, where they are also registered as suppliers of green leaf. The Factory Companies in turn are corporate shareholders of the Kenya Tea Development Agency Limited, which is their management agency.

This number quickly jumped to over 560,000 farmer/shareholders by 2010. There are no external shareholders or investors as the huge number of internal shareholders ensures that equity funds for factory projects can be raised through small deductions for green leaf deliveries over an agreed period of time.
Since the government is no longer a guarantor for the Factory Companies, which are themselves limited liability entities, KTDA now becomes the guarantor for any loans taken by the factories from financial institutions. The equity-loan ratio ranges from 30:70 to 50:50 for factory expansions, modernisation of plant and equipment and construction of new factories, among other projects.

This unique business model leverages on the huge number of growers, their countrywide spread and the financial muscle of the Agency to negotiate for the best possible business deals (discounts, tenders and interest rates, among others). KTDA has made use of the economies of scale to run a successful fertilizer credit scheme that has provided the tea farmers with the most competitively priced imported fertilizer every year on slow repayment terms. The scheme, which has been in existence for decades, is the only one of its kind in any sector in Kenya. In 2013, KTDA imported 63,000 metric tonnes of the NPK fertilizer worth about Ksh3 billion.

KTDA has also effectively deployed the huge number of well organised farmers in lobbying government and championing causes for the good of the sector.

For the management services that KTDA gives to each of the Factory Companies, the Agency charges 2.5 % of net earnings as per a management agreement signed by each of them. That percentage has come down from 3% at privatisation.

**On the Fast Track**

The privatisation of KTDA was a major milestone for smallholder farmers, who were now the owners of their own enterprises, and through their elected directors, determined the destinies of the multi-billion smallholder sector. The investment in a single Tea Factory is about Ksh500million, on average, each with a turnover of several hundred million shillings annually.

The smallholder farmers under KTDA Limited had no doubt entered the corporate league - enjoying rewards of private sector managerial excellence as well as bearing the risks and pains of private investment.
Under a privatised KTDA, the area under tea cultivation increased dramatically to about 120,000 hectares in 2013, with green leaf production reflecting this growth, itself expanding to over 1.1 billion kgs in 2013, the first time in the history of Kenya’s tea sector that green leaf production from the smallholders has hit, and crossed, the 1 billion kgs mark. To accommodate this rapid growth, 20 new factories were built in 10 years across the country, raising the number from 45 at privatisation in 2000 to 65 factories by 2010. One more factory was commissioned in 2013, and two others are at planning stage, which will raise the number of factories to 68 across all of Kenya’s tea growing counties.

It is important to note that whereas there are 65 tea processing factories, there are 54 Factory Companies, established as limited liability entities. This means that 11 Factory Companies have more than two processing factories, referred to as satellites. It also means that there are 54 Factory Boards, which makes governance cost-effective by avoiding to create a new company whenever new factories are set up in new tea growing zones.

Going hand-in-hand with the construction of new factories was the accelerated expansion of the old ones, with additional production lines being added and the withering sections of the green leaf being expanded.

To increase production efficiency, the company launched a modernisation programme at all factories that involved the computerisation of key factory production processes. One of the most revolutionary changes made was the introduction of Continuous Fermentation Units (CFUs) at all factories. These are computerised “intelligent machines” that literally transformed the way tea was manufactured by eliminating human intervention in the process of fermentation. The result was greater consistency in the quality of made tea, more efficient production and a lowering of labour costs since a single CFU replaced almost 40 workers. Since most factories have two production lines, more than 100 of these units were imported over a six year period.

It was not only the number of factories that were increasing, KTDA was also diversifying its businesses to tap on its wide value chain – from the tea bush to the cup. Among the strategic investments was the establishment of Chai Warehousing Limited, a Mombasa-based subsidiary whose function was to warehouse the teas from all the factories and keep profits from the business in-house. This company was later merged with another unit set up to give KTDA a foothold in the lucrative tea trading business at the Mombasa Auction, to form Chai Trading Company Limited (CTCL), whose mandate was expanded to cover trading, warehousing (of both KTDA and non-KTDA cargo), cargo handling, clearing and forwarding and transport logistics. Today, it has one of the largest warehousing spaces in eastern Africa and is a major contributor to the KTDA Group’s earnings.

Insuring such a mammoth operation is very good business for any insurer. The results would only be better returns for the farmer. So KTDA set in motion a process that is expected to lead to the ownership by smallholder tea farmers of an insurance company by first establishing an insurance brokerage company. The Majani Insurance Brokers Limited was thus set up in 1998 as a fully owned subsidiary to cover the Group’s investments and operations as well as source other non-KTDA business.
At the value addition level, KTDA continued its buyout of shareholders who co-owned the Kenya Tea Packers Limited (KETEPA), the dominant tea manufacturer for the Kenyan market, with a market-share of about 60 per cent. Today KTDA owns more than 80% of KETEPA.

These strategic investments at various stages of the tea value chain did not only enable KTDA to tap into lucrative activities serving the smallholder tea sector, thereby improving the farmers’ bottom line, but also ensuring that KTDA did not depend entirely on the 2.5% management fees it charges Factory Companies to sustain its operations. Indeed, it was becoming clear by this time that KTDA as a private entity would need more than the management fees to provide the diverse services required by the factories. The Factory Boards were already pushing for a further reduction in the management fee, so exploring additional revenue streams by establishing subsidiary companies, was the only option for growing the Agency’s income.

It would appear that these noble expansion strategies may have had unindented effects. For sure, the Group’s growing turnover and announcement of annual tea earnings and payouts to farmers, popularly referred to as the annual “tea bonuses”, which by 2013 had reached over Ksh 60 billion, attracted the attention of KTDA’s detractors. Calls for a splitting of KTDA, which had become a giant company, accounting for close to 60% of Kenya’s total tea earnings of about Ksh110 billion (2012), also grow louder, with proponents of this move claiming that the sector would be more efficiently managed by two, or more, agencies. It seemed obvious though that those pushing for such a split had ulterior motives, considering that economies of scale didn’t seem to feature in their arguments. In the end, economic sense prevailed; the farmers were not convinced that this would improve their fortunes.

The Strain Begins To Show

To successfully undertake the projects under its expansion and modernisation programme, KTDA relied on the political support of of the new independent Factory Board Directors, who had to be convinced to retain part of the Factory earnings from the export of tea for factory expansion and other developmental projects. It wasn’t always easy, though, to do this as it meant reducing the payout to farmers. In an environment of intense competition among the 65 tea factories to have the highest returns to the shareholders (the farmers), there was always a high temptation to declare unsustainably high annual payouts at the expense of future development.

While KTDA, as the managing agent, was able to get the boards to reinvest a part of their earnings in these worthy projects, which significantly reduced their cost of finance for the projects, this was achieved largely during periods when earnings were generally high. When the sector earnings slumped, Factory Directors found it more prudent not to retain funds and maintain a certain level of earnings for the farmer. Though this is understandable from the perspective of the farmers, it highlights the conflict of interest between the Factory Company Boards composed of directors who, as farmers, expect high annual payments for their supply of leaf to the factory, and as custodians of the farmers’ investments, are expected to make decisions that ensure the long term profitability of the factories.
Considering that directorship to factory boards is through a highly competitive electoral process, it is not surprising that when the going gets tough, many directors are inclined to lean more towards the wishes of the farmer.

And the going did get tough for the smallholder tea farmers. Rising cost of production, driven largely by skyrocketing energy costs, a global tea glut, falling global tea prices, rising farm costs caused by increasing costs of inputs, especially fertilizer, and high labour costs, conspired with the countries high inflation rate to erode farmers’ earnings. The confidence farmers had in their ability to run their own industry began to falter. Since the smallholder tea sector had been liberalised, and KTDA was no longer a parastatal, farmers were no longer entitled to government support. But that is exactly what what farmers who had been hard hit by the global, and local, economic shocks, began agitating for, without much success.

For instance, when the global price of oil spiked in 2008, tripling the price of a 50kg bag of fertilizer from about Ksh1,180 on average, to about Ksh3,600, KTDA made the unprecedented, but wise, decision not to order the fertilizer that year. It was clear to KTDA and the Factory Boards that farmers could not afford the input, even through the innovative credit scheme that allowed them to repay in instalments. Though concerns were raised regarding the impact skipping a year of fertilizer application would have on tea yield, it was the lesser evil. The alternative – mass protests by farmers – was unthinkable. In the end, the Tea Research Foundation of Kenya predicted that the yield would not be significantly affected, a fact that was confirmed by that year’s production.

**2013 fertilizer cost per bag (Kshs)**

![2013 fertilizer cost per bag](image)

Though the price of fertilizer in subsequent years dropped, it has stabilised at an amount of about Ksh1,250 per 50kg bag, on average, and the projection is that it will rise, largely due to the increase in oil prices, and domestically, due to taxes and levies imposed by the government. In 2013, the government imposed a 16% tax on fertilizer and a 1.5% railway levy on all imports, which was a double blow to the tea sector since all the fertilizer is imported. It was rather ironical to hear smallholder tea farmers who had fought so hard to get the government out of their business so that
they take charge of their affairs now ask the government for fertilizer subsidies and debt write-off. The government was categorical, the tea industry had been privatised, and the managing agent, KTDA, was a private company. The government could not bail out private entities! In any case, tea was one of the best performing sectors of the economy! To the ordinary farmer who knew that the government was writing off debts owed by maize and livestock farmers, and was trying to resolve the problems faced by sugarcane and pyrethrum farmers, this stand did not make sense.

Calls to return KTDA back to a parastatal grew louder, as hard-hit farmers sought to have their growing debts written-off (like was happening to other government-controlled, but poor performing, agricultural sub-sectors). If change of status from private to a parastatal will provide tea farmers some relief, why not do it, desperate farmers argued. The government, through the Ministry of Agriculture, endorsed KTDA’s position on the matter, stating that the smallholder tea sector was best run by a privatised KTDA, the current challenges notwithstanding. This campaign was muted as other more pressing threats to the tea sector took centre-stage.

**Smallholder Industry at a Crossroads**

*The Tea Task Force Report 2007*

Within six short years after the privatization of KTDA and the liberalization of the smallholder tea sector, it had become clear to the government and industry stakeholders that a comprehensive review of the tea sector was necessary with a view to introducing reforms that would guarantee its future prosperity. The government then set up a Tea Task Force, with representation from all tea stakeholders, which would study all aspects of the sector and recommend appropriate reforms. It submitted its report to the Agriculture Minister in August 2007.

The Tea Task Force, headed by Mr John Simba, made the following observations:

“Since the full liberalization of the industry in the year 2000, a lot of changes have taken place in the industry both locally and globally. In the last 10 years, global tea production has outstripped demand by about 2.4 percent annually while it is expected to grow at 1.8 percent yearly in the next decade. Consequently, average global auction prices have been declining. In Kenya, the cost of production has been escalating arising from high cost of labour, fertilizers, electricity, furnace oil as well as high taxation and the appreciating Kenya Shilling against the international currencies, leading to reduced grower earnings. Globally, there have been new entrants into the market such as Vietnam, Nepal, Malawi and Rwanda while in Kenya there has been increased production due to expansion in tea planting.

Similar developments have resulted in the collapse of tea industries in some countries such as South Africa and pose serious challenges to the future growth and direction of the tea industry in Kenya. In this regard, stakeholders in Kenya have realized the need for the industry to re-evaluate itself and make a strategic shift in order to remain profitable and globally competitive. It is significant to note that Kenya’s main competitors in the world market, Sri Lanka and India, have taken measures to address these challenges by enhancing the value of their exports through value
addition, product diversification and aggressive promotion unlike Kenya, which continues to sell most of its tea in bulk form.

It is against this background that the Minister for Agriculture appointed a Tea Industry Task Force to examine and make recommendations on the way forward for the tea industry. The Terms of Reference for the Task Force were to identify and analyze the challenges facing the industry and make appropriate recommendations on measures that may enhance competitiveness of the industry and subsequently improve earnings at all levels of the value chain. The stakeholders consulted by the Task Force included growers, traders, government ministries, public and private institutions, lobby groups, industry experts, and other relevant international institutions. The Task Force also made reference to key documents such as Economic Recovery Strategy for Wealth Creation and Employment, Strategy for Revitalizing Agriculture, the Tea Act (CAP. 343, Laws of Kenya) and Sessional Paper No.2 of 1999 on the Liberalization and Restructuring of the Tea Industry. [TEA INDUSTRY TASK FORCE REPORT- 2007]

The Task Force recommended that KTDA decentralizes its operations and restructures its corporate and managerial structures in a wide-ranging move designed to steer the sector into a new era of growth and to face emerging challenges. It noted that concerns raised on KTDA included “structural problems characterized by conflict of interest among the KTDA Ltd and Factory Board members, unclear roles and responsibility of the directors and overall poor corporate governance practices, operational inefficiencies, dual role of KTDA Ltd as a Managing Agent and growers’ investment through their respective factory companies.”

It is recommended that the “current structure should be restructured in the long run to convert KTDA Ltd into a holding company and some of its shares floated on the Nairobi Stock Exchange inorder to unlock value for its shareholders. The farmers through their factory companies should still be the majority shareholder. Due to complexity of the existing structure, it is recommended that a detailed study by an independent consultant be undertaken to come up with a suitable structure. This shall be done by KTDA Ltd in conjunction with the Ministry of Agriculture. In addition, the smallholder factory directors should not be eligible to be members of the Board of the Agency when the same agency is the managing agent. [TEA INDUSTRY TASK FORCE REPORT- 2007]

KTDA moved quickly to restructure by decentralizing its administrative structure, creating seven regions headed by Regional Managers who would be the focal points for clusters of factories, of about five to seven. The Regional Managers maning the Regional Offices, complete with regional accountants, ICT and other staff, would report to the Operations Director at the head office in Nairobi but have oversight over the Factory Unit Managers in their regions. The Regional Officers were established with the premises of select factories that were centrally located. The seven regions are: Region I (Kiambu and Murang’a), Region II (Nyeri), Region III (Kirinyaga and Emu), Region IV (Meru), Region V (Kericho), Region VI (Kisii and Nyamira) and Region VII (Nandi and Vihiga). All operational and management matters would be handled at the regional level, improving speed in decision-making and problem-solving and enhancing overall efficiency.

Governance at the Factory Company level was also enhanced. Each of the 54 Factory Companies managed by KTDA has six elected directors, each director representing one of six electoral areas within a factory catchment. A cluster of factories (about five to seven factories) makes up a zone.
There are 12 zones in total, each of which elects a Board Member to sit at KTDA as the overall Board of Directors for the Group. The 12 Board Members still retain their directorships at the Factory Companies. They elect a Chairman from among themselves and appoint the CEO/Managing Director and all Senior Managers. Elections for Factory Directors and KTDA Board Members are held every year when a third of them are required, in accordance with Company Law, to retire on rotation every year. Eligible directors are free to present themselves for re-election.

National Factory Directors’ elections to fill about 112 positions, on average, are held on one day in January every year. The highly competitive elections usually attract about 500 candidates and involve about 200,000 voters (the shareholders/farmers) across all factories.

A unique grassroots organisational structure at the tea farms across the country was also established. The elaborate network of Buying Centre Committees (BCCs), each having 6 farmer representatives, became the structural backbone of the smallholder tea sector. The BCC members, a third of whom are also elected every year, are the representatives of the farmers at the grassroots. Factories have anywhere between 30 and 300, Buying Centre Committees, depending on the size of their catchment. The BCC members run the affairs of the Buying Centres (tea collection centres) in their catchment areas. There are about 4,000 Buying Centres across the country. These grassroots leaders work closely with the Factory Directors to improve tea yields, address production matters at the factory, co-ordinate farmer training activities with the factory management and deal with any other issues that may affect the operation of the factories in their respective areas. These issues are usually the subject of Joint Buying Centre Committee Meetings that are held regularly.

In the new reforms, the Regional Managers were co-opted as members of the Factory Boards representing the Agency, KTDA. This was designed to further reduce bureaucracy in decision-making while strengthening controls as KTDA’s views and interests would be readily represented by the Regional Manager without necessarily making reference to the Agency in Nairobi.

The Factory Boards were also empowered through corporate governance training that is held every year for all new and re-elected directors, and involving managers as well. Annual directors’ conferences bringing together close to 400 Factory Company directors from across the country in one forum have become a highlight of KTDA’s annual events. The roles of directors and managers were more clearly defined, reducing conflict and enhancing harmony at the factories. Continuous grower education programmes were also launched to sensitize farmers on all aspects of the tea industry. These are run through the Buying Centre Committees.

To further reduce bureaucracy, the Factory Boards were allowed oversee the procurement of goods and services up to a determined amount, currently capped at Ksh7 million. This meant that production was not interrupted, or operations disrupted, on account of delays in procuring goods and services of relatively low value. Procurement above the stated amount would be centrally done at KTDA, allowing the Agency to leverage on the volumes to secure the best prices. This procurement model has enabled the Factories to buy a whole range of products - from vehicles and parts to machinery and office equipment - at the most competitive prices in the market.
KTDA instituted new measures to reduce production cost and improve service delivery to farmers through enhanced field services. For instance, at the farm level, the extension services that involved visits by KTDA officers to individual farmers was replaced by an innovative model of Farmer Field Schools (FFS) where farmers taught fellow farmers. The huge number of tea farmers, which had now reached over 500,000, made it impossible for field extension officer to cover a fraction of them, and the model was proving to be uneconomical. Under the Farmer Field Schools, on the other hand, KTDA trained lead farmers who shared their knowledge with groups of farmers within their locality, formally organised as a “school”. By 2013, about 800 Farmer Field Schools had been started across the country. Under a joint program by KTDA, Unilever and IDH of the Netherlands, the FFS is being upscalled to cover the more than 560,000 smallholder tea farmers across the country. This will entail establishing an additional 3,500 Farmer Field Schools.

**KTDA Electoral Reforms to entrench Corporate Governance**

In 2008, KTDA began reforming the electoral process for electing Factory Company directors. New rules and processes were put in place. The tea farmers, who are also shareholders, appoint 6 Factory Directors per factory to represent them. In keeping with Company Law, two directors retire by rotation every year and replacements are subject to a nomination process. The aspirants (including the incumbents) must meet the conditions set in the companies’ Articles of Association to be eligible to contest for directorship. These include education qualifications (minimum ‘O’ Level), amount of green leaf delivered as set by the Articles of respective Factory Companies, and age-limit as set by Company Law. Voting is by the strength of one’s shares and is by secret ballot.

This democratic electoral system that is free and fair to all has brought order and accountability to the electoral process and strengthened corporate governance in the smallholder tea sector. Enforced from 2008, the system of voting by shares has seen the election (or re-election) of leaders at the local level who have diverse professional skills and business experience.

This is a major transformation from the pre-2008 period when elections were chaotic, leading to acrimonious exchanges and violence. The voting then was through queue-voting. There was no secret balloting. The result was intimidation of genuine stakeholders who opted not to vie for directorship at the factories they owned. The calibre of Factory Directors was pathetic and governance was in crisis as experienced professionals kept off the affairs of the Factory Companies.

All this has now changed, with a further significant step being taken in 2013 to appoint one Independent Gender (Women) Director at each of the 54 Factory Companies, through an interview process, rather than by election. Thus KTDA has taken the first step in complying with the one-third rule in the new Constitution of Kenya 2010 on gender representation.

In 2010, KTDA instituted one of the most drastic restructuring processes since its privatization by adopting a holdings structure as recommended by the Tea Industry Task Force. KTDA Holdings Limited and KTDA Management Services (MS) Limited were set up. KTDA Holdings Ltd would become the investment company for the Group, while the KTDA Management Services (MS) Ltd the key subsidiary, would be responsible for KTDA’s core business – managing the 65 processing factories through management agreements with the respective Factory Companies. The Factory Company directors would sit in the KTDA Holdings Board, but would be excluded from the KTDA (MS) Board to resolve the conflict of interest that had been highlighted by the Tea Task Force. Further, external (independent) directors were co-opted in the KTDA (MS) Board.
All other subsidiary companies were brought under the control of KTDA Holdings Ltd, with their managing directors or general managers reporting to the Group Chief Executive Officer, who heads the holding company. During the transitional period, the Group CEO continues to serve MD for KTDA (MS).

In addition to KTDA (MS) and the older subsidiary companies – Chai Trading Company Ltd (handling warehousing, blending, trading and export of tea), Majani Insurance Brokers Ltd (providing insurance brokerage services) and Kenya Tea Packers (KETEPA) Ltd (engaged in tea blending, packaging and distribution), KTDA Holdings Ltd proceeds to set up other subsidiary companies as part of its business diversification strategy.

These are Greenland Fedha Ltd (providing affordable credit to farmers), KTDA Power Company Ltd (invest in the energy sector and manage small hydro power projects for Factory Companies), and the KTDA Foundation established as a non-profit affiliate company to drive the CSR and CSI agenda for the Group. The subsidiaries are set up as investments on behalf of the farmers and the dividends declared from any profits they make are paid to the tea factory companies through KTDA Holdings Ltd, which in turn pay the farmers.

KTDA HOLDINGS SHAREHOLDING STRUCTURE

Legislative Challenges to the Smallholder Sector
One of the most serious of these threats to the smallholder industry came by way of a Private Member’s Bill to amend the Tea Act. The Tea (Amendment) Bill 2010, popularly known as the
Kones Bill after the sponsor of the Bill, the then Member of Parliament for Konoin, Hon. Julius Kones, sought to introduce further reforms in the tea industry by liberalizing it further. Although in its wording the Bill appeared populist, suggesting that farmers would be further empowered, in reality it proposed a self-destructive path for the smallholder sector.

The Parliamentary brief to the Tea (Amendment) Bill, 2010 (The Kones Bill) stated: This is a Private Member’s Bill prepared by Hon. Julius Kones and published on the 1st of April, 2010. The Bill seeks to address some of the legal and regulatory challenges facing the tea industry, which have seen returns from tea significantly decline.

The proposed amendments seek to review the composition of the Tea Board of Kenya in order to reduce the number of members of the Board from the current 18 to 11 and to ensure that these Members are professionals who would introduce professionalism in the management and affairs of the Board. They also seek to review the functions of the Board adding to it responsibilities of licensing of management agents, brokers and packers. The additional functions are expected to ensure that the tea industry is better regulated since all the key players in the sector would be registered by the Board and therefore be subject to the requirements set out in the Act.

Those noble intentions of the Kones Bill hardly featured in the onslaught that the MP waged at public rallies to mobilise support from farmers and politicians for his Bill. What made the headlines was the storm caused by this section of the Bill, which read as follow, “Notwithstanding the provision of this Act (Cap 343) or any other law, a tea grower may deliver green leaf to a factory of his choice”.

The assertion that farmers should be “free to deliver their green leaf to a factory of their choice”, whether a KTDA-managed factory, a multinational company-owned factory or an independently-owned factory, had major negative implications on the way the entire tea industry is organised and conducts its business and is the main reason stakeholders in the smallholder tea industry opposed the Bill so strongly.

Tea Board of Kenya regulations make it clear that farmers have to be registered as suppliers of green leaf by their respective factories. These are the same factories they constructed by raising equity through deductions from green leaf earnings and for which many were still making monthly contributions to repay loan balances. Further, the Tea Board’s criteria for licensing the construction of new factories is based on a positive assessment of the current and potential tea yield from the respective tea catchments. This is based on a critical mass of green leaf grown and supplied by the farmers. So, if the farmers stopped supplying the green leaf by shifting it elsewhere, the factory would literally shut down and the company would default on its loan repayment. Neither TBK, the regulator, nor KTDA, the guarantor of the loans, would sit and watch such a scenario unfold.

What the “free market” concept advocated by the MP’s Bill was intended to achieve was a scenario whereby factories that did not invest in their own “tea catchment” - by either planting the tea themselves as in an estate that they would manage, or by establishing their own outgrowers and supporting them with farm extension services and inputs, such as fertilizer - as KTDA did, would still access green leaf by simply paying a slightly higher price for it, and on delivery.
Allowing this would have effectively institutionalized what is currently the criminal act of tea hawking! The Tea Board of Kenya and KTDA were already battling the tea hawking menace in various parts of the country, especially in Kericho, Nandi, Kiambu and Kisii, where factories, which were being starved of green leaf were suffering significant losses of income. The incidence of theft of green leaf from the farms was also reported to have increased as unlicensed middlemen drove around the tea farms in pick-up vans buying the crop, usually in cash, from unscrupulous tea pickers, as well as farmers. The middlemen would then deliver the leaf to factories for a higher pay.

KTDA-managed factories pay their registered farmers for green leaf supplies at the end of every month at a fixed rate per kilogramme of leaf delivered. This rate has increased over the years and currently stands at Ksh14 per kg. This is referred to as the first payment. The second payment is made after the end of the July to June financial year. This is a lump-sum payment that includes interest earned over the period. Being a cumulative amount, it has come to be known as the “bonus”. In real terms, whereas farmers who hawk their leaf to unlicensed traders, enticed by the instant cash, which could even be a few shillings more than the monthly rate established by KTDA, they earn much less in the long term because they would not be entitled to the second payment, which is usually paid at a much higher rate. In 2012, the bonus was paid at a rate of Ksh.50 per kg of leaf on average.

It is instructive that the total disruption and near collapse of the coffee sector in Kenya was triggered by the uncontrolled liberalization of the sector, which spawned an unmanageable hawking crisis. It was easy to draw a parallel between the Kones Bill and the coffee crisis.

KTDA campaigned against the Kones Bill on these grounds and lobbied the government, MPs and local leaders to have it shelved. The following KTDA Press release captured the mood of stakeholders:

**Bill Spells Doom for Tea Industry**

*Nairobi, April 2010...* A private member’s Bill introduced by the MP for Konoin, Hon. Julius Kones, could destroy Kenya’s tea industry as we know it today, and with it, more than three million livelihoods.

The Bill, the Tea (Amendment) Bill 2010, which was published early this month, proposes to amend the Tea Act (Cap 343 Laws of Kenya).

While Mr. Kones has passed off the Bill as purely designed to liberalize the tea industry and improve the welfare of small-scale tea farmers, a keen look at the provisions of the Bill reveals a well orchestrated attempt to cause chaos in the tea industry and ultimately collapse it for the benefit of certain unnamed individuals.

Fundamentally, the MP has never explained how small-scale farmers will benefit should the Bill become law. Instead, he has consistently ignored inputs into the Bill by industry stakeholders choosing to unilaterally draft a Bill with grave consequences for an industry that contributes 4 per cent to Kenya’s GDP with exports valued at Sh70 billion in 2008/2009 alone.

In the smallholder sector, there can never be any progress by acting apart from each other. This is what caused the chaos in the coffee industry leading to its near collapse.

Yet by proposing to scatter farmers, the Bill inadvertently seeks to stall the progress of some 600,000 farmers and their families and drive them into poverty.
It must be noted that the Kenya Tea Development Agency (KTDA) model is unique and its success has been the subject of studies by countries including Sri Lanka, India, Uganda, Rwanda Nigeria and South Africa. – Ends

Once the farmers realised what was at stake, their unanimous condemnation of the Kones Bill was loud and clear. One its part, the Ministry of Agriculture assured the farmers and other stakeholders that the government would not allow such a Bill to be passed. In a smart move, Agriculture Minister Dr Sally Kosgei pre-empted further progress of the Bill through Parliament by crafting a Government-sponsored Bill, the Tea (Amendment) Bill, 2010, that superseded the Private Member’s Bill. This effectively “killed” the Kones Bill, but adopted a number of its proposals that were not controversial.

Stakeholders in the smallholder sector were particularly relieved because the Government Tea Amendment Bill not only discarded the contentious provision in the Kones Bill allowing farmers to “deliver green leaf to a factory of his choice”, but it prescribed punitive penalties for tea hawking. Farmers were now required to sign supplier agreements with their respective factories and a clear process was put in place should a farmer wish to terminate the agreement and become a supplier to another tea factory. Order had won over disorder, and stakeholders in the smallholder tea sector hailed the Minister and declared their support for the new Government Bill. The Tea (Amendment) Act 2010 was duly passed by parliament.

All was well until the a little section that the Minister had added in the Government-sponsored Bill took a life of its own. The government Bill had added a provision for an ad-valorem levy to be charged on made tea at the point of export, up to a maximum of 2% of the export value. The rationale of this levy was to raise additional revenue for the Tea Board of Kenya for marketing of Kenyan locally and abroad, and for its own administrative operations, to finance the development of the sector, including infrastructural improvements, and to fund research through the Tea Research Foundation of Kenya (TRFK), which is a government institution. The Tea Act stipulated that the Tea Board of Kenya will receive 50% of the levy amount, TRFK 40%, whilst 10% will be used for infrastructure development.

The Minister of Agriculture issued Gazette Notice Number 3 on 27th January 2012, detailing the planned implementation of the advalorem levy on tea exports at 1% (the Act capped the rate at 2%). This came into effect from 27th February 2012. On the face of it, 1% may not seem high, but it has had the effect of almost quadrupling the amount payable to the government through the Tea Board from about Ksh300 million to Ksh1 billion annually. Tea industry stakeholders, through the East Africa Tea Trade Association, complained that the government had erred in gazetting the rate without reaching a consensus with the stakeholders. They argued that the rate should not have been more than 0.5%, which would have increased the amount payable to about Ksh500 million annually.

Prior to the ad valorem levy, tea factories paid a standard levy of 46 cents per kg of made tea to TBK. This was based on the volume of tea produced. They also received a small portion of funds allocated to the county council as road cess to enable them maintain tea access roads in their catment areas.
The overall effect of the new levy, stakeholders noted, was to make Kenyan tea at the Mombasa Tea Auction less competitive than teas from the rest of the region, which were exempt from the levy. EATTA observed, for instance, that buyers were quick to go for Rwandan tea whose quality was now matching Kenya’s, yet could be obtained at highly competitive prices. The association also noted that buyers of Kenyan tea who did not want to absorb the new levy in their purchase price, simply bid lower, thus depressing the prices of the teas. The net effect is that smallholder farmers are the ones bearing the cost of the levy through lost earnings.

Also, since the levy is based on value, stakeholders felt it was punishing factories that produced higher quality tea, which earned higher prices, and therefore paid more in ad valorem levy. The levy would become a disincentive to those who had invested their resources to improve the quality of their tea, they observed.

It is not clear how much the Tea Board has raised through the new levy since the Board has not disclosed it publicly, but EATTA continues to engage with the government over the rate and on the management of the 10% infrastructure resources. Industry stakeholders are agreed that the TBK does not have the capacity to manage infrastructure development for the sector, especially for the smallholder farmers who require rural roads to the factories and tea farms maintained regularly. They observe also that the TBK has no capacity to absorb the huge amounts of funds that are now going its way. The matter is yet to be resolved.

### Average Tea Acreage and Household Daily income derived from tea in the smallholder sub-sector

<table>
<thead>
<tr>
<th>No. of Bushes(acres)</th>
<th>Annual Yield GL (Kgs)</th>
<th>Household income/day-6 family members (KSh)</th>
<th>Percent of Growers</th>
<th>Cumulative percent of Growers</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 (0.14)</td>
<td>750</td>
<td>19.70</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>875 (0.25)</td>
<td>1,300</td>
<td>34.40</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>1750 (0.5)</td>
<td>2,600</td>
<td>73.80</td>
<td>45</td>
<td>70</td>
</tr>
<tr>
<td>3500 (1.0)</td>
<td>5,250</td>
<td>150.80</td>
<td>21</td>
<td>91</td>
</tr>
<tr>
<td>8600 (2.47)</td>
<td>12,900</td>
<td>339.20</td>
<td>9</td>
<td>100</td>
</tr>
</tbody>
</table>

N/B: Net earnings differ between and within various tea growing regions and factories.

### The Golden Years of Smallholder Tea – 2008 to 2013

**Focusing on Sustainability & Expanding Investments**

As global demand for tea increased, pushing up tea prices, and the exchange rate largely remained favourable between 2008 and 2013, KTDA seized the opportunity to implement further cost-reduction and efficiency-boosting measures to maximize on earnings for farmers and encourage Factory Companies to retain funds for expansion and modernization of their tea processing plants.

KTDA Holdings Ltd diversified its investments, establishing a microfinance company, buying a stake in a commercial bank and strengthening its existing subsidiary companies. To-date (2013) the Group has 7 Subsidiary companies, operating at various stages in the tea value chain, all investments creating value to smallholder farmers. Among the new additions to the stable was the KTDA Foundation (in 2010), established as a non-profit associate company, to champion and coordinate the Group’s corporate social responsibility/investment initiatives.
Sustainability of the Smallholder Tea Sector

Sustainability of the smallholder tea business became the focus of KTDA’s strategy in the wake of uncertainties in the global tea market, unstable tea prices, fluctuating exchange rates and domestic socio-economic and political challenges.

To drive its sustainability agenda, KTDA, jointly with Unilever and IDH Sustainable Trade Initiative of Netherlands, launched the Sustainable Agriculture Project aimed at improving the lives of the small-scale tea farmers. The project aims at upscaling and embedding sustainable agriculture in the Farmers Field Schools (FFS) initiated by KTDA, Unilever and IDH in 2009.

The FFS are units where small-scale tea farmers are trained on sustainable agricultural practices in order to achieve quality teas. The FFS have embraced a participatory approach that includes the demonstration of best sustainable practices in the farms. Farmers trained in sustainable agricultural practices are expected to train others to achieve the required international standards. Since the project began in 2009, about 800 FFS have been rolled out in all the 66 KTDA-managed factories.

The sustainable agricultural project is meant to boost tea production up to 30% in volume. The initiative adopts best practices in tea plucking, digging composite pits, pesticide use and protection, bio-diversity, soil management and fertility. Besides training growers on best practices, the joint partnership is also intended to complete the Rainforest Alliance (RA) certification for the remaining KTDA-managed factories. So far, 54 factories have been certified and 12 are at various stages of the certification process.

Record Farmers Earnings

Smallholder farmers’ earnings continued to increase over the years, reaching unprecedented levels, as more land was put under cultivation, coupled with improved crop husbandry. Farmers earned Ksh19.78 billion in 2008, increasing to Ksh45.3 billion in 2012. The average payment per kg of green leaf rose from Ksh24.63 in 2008 to Ksh50 in 2012.

Payment to KTDA tea farmers in the last 10 years

International Standards and Certification
KTDA has also adapted international standards in all its operations. Some of the standards attained by the tea factories include the Rainforest Alliance, ISO 22000 and Fairtrade certifications.

**Recognition & Awards**
Along the way, KTDA, owing to its unique business model, has attracted local and global recognition. Some of the awards:

1. In 2013, KTDA won *Total Eco-Challenge* Gold Award Award for Tree Planting
2. In 2013, KTDA won the *Financial Times/IFC Global Sustainable Finance Award for Achievement in Inclusive Business*
3. In 2012, KTDA won the Unilever Global Award for Sustainability
4. In 2012, the International Finance Corporation (IFC), a subsidiary of the World Bank, becomes a major KTDA financial partner
5. In 2011, KTDA won the Total Eco-Challenge award for Tree Planting

**Grasping with Old and Emerging Challenges & Solutions**
Over the years, the rising costs of energy (electricity, furnace oil, wood-fuel, diesel) has continued to impact negatively on the performance of the sector and the overall earnings of the smallholder farmer. KTDA therefore had to make the hard decision to venture into development of own small hydro power plants and to explore other sources of renewable energy like wind, solar and geothermal.

KTDA’s first small hydro pilot project was at Imenti Tea Factory in Meru County, with its 1Mega Watt small hydro plant that was commissioned in 2009. The power project has been able to reduce the factory’s electricity bill by almost 60%. The factory consumes about half of the electricity generated (0.4 MW to 0.5 MW) and sells the surplus to the national grid through a power purchase agreement (PPA) with Kenya Power.

Apart from Imenti Power Plant, other Small Hydro sites are being developed under Phase 1 of the SHP project. The 10 sites will have a total combined installed capacity of almost 24 MW. KTDA Power Company expects to sign a power wheeling agreement with Kenya Power once the regulator approves, which will facilitate transmission of power to factories that are not within close proximity to the hydro sites.

To further address the issue of energy, KTDA made the decision to convert boilers from diesel to wood fuel, in the process reducing the cost of energy. However, this raised the demand for wood, which forced KTDA to start the wood energy project to provide sustainable source of wood fuel for the factories. The project set a target of acquiring 34,000 acres of land to grow trees, with each of the KTDA factories expected to buy at least 620 acres to plant trees.
The other challenge facing KTDA is the rising cost of labour in the farms and at the factory level. KTDA is still studying recommendations for the introduction of machine plucking at the farms as this has been found to compromise quality of the final product.

- Target for self sustainability: 33,090 acres
- Acquired: 3,513 acres
- Work in progress: 2,255 acres

Source: TECHNOERVE, Tanzanian Tea Competitiveness Study (2007)
The rising cost of farm and factory inputs (especially imported fertilizer and imported plant and machinery) has also affected earnings for the farmers.

### Kenya’s Cost of production compared with other producer countries (US $/Kg of made tea)

<table>
<thead>
<tr>
<th>PRODUCER</th>
<th>Field Cost</th>
<th>Factory Cost</th>
<th>Sales Cost</th>
<th>Overhead Cost</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRI LANKA</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$1.89</td>
<td>$1.89</td>
</tr>
<tr>
<td>NORTH INDIA</td>
<td>$0.84</td>
<td>$0.52</td>
<td>$0.11</td>
<td>$0.16</td>
<td>$1.63</td>
</tr>
<tr>
<td>KENYA</td>
<td><strong>$0.78</strong></td>
<td><strong>$0.28</strong></td>
<td><strong>$0.10</strong></td>
<td><strong>$0.16</strong></td>
<td><strong>$1.33</strong></td>
</tr>
<tr>
<td>RWANDA</td>
<td>$0.90</td>
<td>$0.11</td>
<td>$0.21</td>
<td>$0.10</td>
<td>$1.32</td>
</tr>
<tr>
<td>UGANDA</td>
<td>$0.64</td>
<td>$0.22</td>
<td>$0.12</td>
<td>$0.21</td>
<td>$1.20</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>$0.58</td>
<td>$0.22</td>
<td>$0.14</td>
<td>$0.22</td>
<td>$1.16</td>
</tr>
<tr>
<td>MALAWI</td>
<td>$0.55</td>
<td>$0.28</td>
<td>$0.21</td>
<td>$0.10</td>
<td>$1.14</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>$0.69</td>
<td>$0.23</td>
<td>$0.02</td>
<td>$0.16</td>
<td>$1.11</td>
</tr>
<tr>
<td>VIETNAM</td>
<td>$0.61</td>
<td>$0.12</td>
<td>$0.04</td>
<td>$0.04</td>
<td>$0.81</td>
</tr>
<tr>
<td>INDONESIA</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.58</td>
<td>$0.58</td>
</tr>
</tbody>
</table>

Source: TECHNOSERVE, Tanzanian Tea Competitiveness Study (2007)

KTDA has also faced a challenge of reduced farm sizes (rising number of uneconomic land units; 70 per cent of the more than 560,000 tea farmers have less than 0.5 acres or less of land) every year. The solution lies in championing land consolidation, but splitting grower bank accounts as an option.

Ageing Farmers: Most farmers are of advanced age and cases of neglect of tea farms and absentee farmers are increasing. KTDA is piloting a farm-management programme to address this challenge.

Taxes and Levies: The taxes and levies charged on the sector have impacted negatively on farmers’ earning. The levies have also made Kenyan tea expensive. To address this challenge, KTDA has been lobbying the Government through the ministry of Agriculture to review the levies.

### Taxes and Levies directly or indirectly affecting Tea Growers

<table>
<thead>
<tr>
<th>Levy</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Produce Cess (Local Government and</td>
<td>1% of value of green leaf</td>
</tr>
<tr>
<td>District Cess Committees)</td>
<td></td>
</tr>
<tr>
<td>Value Added Tax (Government)</td>
<td>16% of sale value</td>
</tr>
<tr>
<td>Manufacturing Cess (Tea Board of Kenya)</td>
<td>KSh 46 cents per Kg of manufactured tea</td>
</tr>
<tr>
<td>Corporate tax (Government)</td>
<td>30% of net profit</td>
</tr>
<tr>
<td>Directorate of industrial training Levy (DIT)</td>
<td>Ksh 300 per employee</td>
</tr>
<tr>
<td>Standards Levy (KEBS)</td>
<td>0.2% of value of made tea ≤ Ksh 400,000</td>
</tr>
<tr>
<td>Environmental Impact Assessment Levy (NEMA)</td>
<td>0.1% of investment costs</td>
</tr>
<tr>
<td>Inspection Fee (KEPHIS)</td>
<td>3000/= per consignment inspected</td>
</tr>
<tr>
<td>Import duty on packaging material (Government)</td>
<td>25% of CIF Value</td>
</tr>
<tr>
<td>Import Declaration Form (Government)</td>
<td>2.75 % of Value</td>
</tr>
<tr>
<td>Furnace oil taxes(Government)</td>
<td>Excise duty of KSh 0.6/litre &amp; 16% VAT</td>
</tr>
<tr>
<td>Brokerage fee (Tea Broker)</td>
<td>0.75% of growers proceeds of made tea</td>
</tr>
<tr>
<td>KTDA Management Agency Fee</td>
<td>2.5% of net sales</td>
</tr>
<tr>
<td>Land rates &amp; rents (due to expansion of boundaries by Local Authorities to include tea farms)</td>
<td>0.3-0.75% percent of the undeveloped value</td>
</tr>
</tbody>
</table>

Source: Task Force compilation 2007
Climate change: Scientists predict that climate change brought about by global warming and extreme weather will start impacting negatively on tea farming in Kenya in the near future. Already, this is being witnessed in some parts of the Rift Valley and Mt Kenya regions where severe frost, hailstones and drought have been experienced in recent years.

According to the Tea Research Foundation of Kenya, climate change has also affected soil fertility and has led to an increase in pest infestations in some catchment areas. The question is, can the farmers in these areas survive without this cash crop? To address this issue, KTDA is working closely with the TRFK to come up with adaptation and mitigation measures, among them education and sensitization of farmers, and widespread, sustained tree planting programmes across all the tea-growing areas.

Since global warming will continue, the solution will be to undertake mitigation and adaptation measures, some of which include efficient management of soil and water resources, precision farming and judicious use of inputs eg, fertilizer. Others are catchment protection (planting of bamboo), environmental conservation, control of deforestation and riverbank protection. Also important is the sustainable management of forests, planting of hedges and use of natural barriers to forests, soil and water conservation measures and mulching.

Scientists recommend water harvesting structures, growing of drought resistant tea clones/varieties, identification of alternate sources of energy (wind, solar, hydro) and consideration of crop insurance as long term mitigation measures.

Tea Value Addition: A key recommendation by the Tea Industry Task Force Report is the formation of the Tea Development and Value Addition Fund. The fund will be used to fast-track value addition and product diversification by providing assistance to manufacturing and processing exporters to expand tea value added exports.

KTDA is already doing value addition through Ketepa, one of its subsidiaries. KTDA is also engaged in product diversification like production of specialty teas (orthodox black, green, white and purple teas) in its drive to expand its export market, which is currently dominated by black CTC teas (mainly consumed by United Kingdom, Pakistan and Egypt).

Just like happened in Sri Lanka, the government must take a lead in promoting value addition. A first step was taken when the Kibaki administration in 2012 directed the formation of a multi-sectoral value addition committee to drive value addition in the agricultural sector. KTDA is represented in this committee.

**Conclusion**

The KTDA model can successfully be applied to the other smallholder sectors in Kenya. Dubbed as the most unique model in the world, it has become a case study on how to successfully manage commercial cash crops from cultivation, extension services, production, procurement of farming inputs like fertilizer, transport logistics, warehousing and marketing.

The adoption and replication of the unique organizational structure of the KTDA model by other players in the agricultural sector like coffee, pyrethrum, and sugarcane could revolutionize farming
in Kenya. It is crucial, though, that appropriate, supportive, legislation be enacted to create an enabling environment for the growth of these sectors.

For instance, a bold move by the government to declare all factories as export processing zones would be a major boost to the smallholder sector. Since 95 per cent of the tea is exported anyway, the factories are practically export zones which are not recognized and therefore are not eligible for the tax benefits that other manufacturers enjoy.

Because of the successful management of the sector in Kenya, The Wood Family Trust (WFT) approached KTDA in 2012 to manage two of its factories in Rwanda, Mulindi and Shagasha.

Through the Rwanda Tea Investments (RTI), which has purchased the majority shares of the two tea factories from the Government of Rwanda, the aim of the WFT is to significantly increase the incomes of the 12,000 smallholder tea farmer shareholders who have the minority shareholding in both factories and, over time, transfer the full ownership of the factories to the farmer shareholders.

However, the Government of Kenya has not been able to roll out this model to the other sectors like coffee and sugar due to a myriad of factors. KTDA was among other strategic state corporations that were earmarked for privatization, and it was only through the sustained push by stakeholders to have the government actually start the process of privatization that the change happened. Even with this stakeholder agitation for change it took 10 years for the government. Clearly, it calls for political will and patience for privatisation of state corporations to be effected. Unlike players in the other sectors, stakeholders in the tea industry were more focused and organized, and used Parliament to lobby for their interests, hence the successful privatization.

Had KTDA not transformed from a state corporation to a private company when it came of age, the smallholder tea story would have been different from the one being told today. It would probably be similar to that of the other cash crop sectors in Kenya that are on their knees.

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